

Y GREGORY



**gregory**  
**industries**  
**limited**

**ANNUAL REPORT 1977**

**Directors:**

WILLIAM E. DONNELLY \*, Vice-President, Cornat Industries Limited.  
W. GRANT GERRARD \*, Secretary-Treasurer, Gregory Industries Limited.  
PETER J. GREGORY, Chairman of the Board, Gregory Industries Limited.  
CYRIL H. MACRAE \*, Retired.  
GEORGE L. MALPASS, President, Gregory Industries Limited.  
JOHN P. SULLIVAN, Mill Manager, Acorn Forest Products Division.

*\* Member of Audit Committee*

**Officers:**

PETER J. GREGORY, Chairman of the Board and Chief Executive Officer  
GEORGE L. MALPASS, President and Chief Operating Officer  
W. GRANT GERRARD, Secretary-Treasurer and Chief Financial Officer

**Registrar and Transfer Agent:**

THE CANADA TRUST COMPANY, Vancouver, B.C.

**Shares Listed:**

VANCOUVER STOCK EXCHANGE

**Banker:**

THE ROYAL BANK OF CANADA

**Solicitors:**

McTAGGART, ELLIS & COMPANY, Vancouver, B.C.

**Auditors:**

PEAT, MARWICK, MITCHELL & CO., Vancouver, B.C.

**Head Office:**

1283 - 595 Burrard Street,  
P.O. Box 49172, Bentall Centre,  
Vancouver, B.C. V7X 1K8

**Registered Office:**

Ste. 800 - 885 Dunsmuir Street,  
Vancouver, B.C. V6C 1P2

**Wholly Owned Subsidiary Companies:**

GREGORY MANUFACTURING LIMITED -  
ACORN FOREST PRODUCTS DIVISION, Delta, B.C.  
FIELD SAWMILLS DIVISION, Courtenay, B.C.  
PANELING DIVISION, Burnaby, B.C.  
ANACORTES LUMBER INC., Anacortes, Washington, U.S.A.



## DIRECTORS' REPORT

To The Members:

Net earnings for the year ended December 31, 1977 after the extraordinary item of a reduction in deferred income taxes, were \$646,128 (62¢ per share) compared with a net loss of \$149,972 (15¢ per share) for the same 12 month period in 1976.

Sales for the year ended December 31, 1977 were \$15,117,954, an increase of 31%, compared with \$11,502,606 for the previous year 1976.

The cash flow from operations was \$877,108 in 1977 compared with \$119,807 in 1976.

The 1977 profits resulted from the continuing efforts of the Company to reorganize and consolidate existing operations. Certainly the change in the value of the Canadian dollar was also a major contributing factor making our products more saleable in world markets.

Effective December 30, 1977 the Company's three operating subsidiaries, Acorn Forest Products Ltd. of Delta, B.C., Field Sawmills Ltd. of Courtnay, B.C. and Gregory Paneling Limited of Burnaby, B.C. were amalgamated into one subsidiary company called Gregory Manufacturing Limited. This resulted in the reduction of deferred taxes for 1977 and in future will permit the Company to operate more efficiently.

The Field Sawmills Division and the Acorn Forest Products Division both continued to improve and update their plants resulting in more efficient operations. The Paneling Division, while still not quite profitable, showed marked improvement over 1976. The markets for the paneling products have expanded to the point where the plant is now selling all production of two shifts. Projections of the Paneling Division for 1978 call for a modest contribution to earnings.

The Company's sawmill in the Yukon, closed since 1974, caused a drain on income during 1977 to keep it secure. This investment was written down in 1975 and is expected to be sold during 1978. Plans for the Company's proposed new plant in Anacortes, Washington are still being held up pending completion of the feasibility study and financing.

As at December 31, 1977 the Company employed 274 people whose 1977 wages, salaries and benefits totaled \$3,953,119 compared with 221 people and \$3,444,148 in wages, salaries and benefits for the previous year.

The Company is projecting 30% of the 1978 sales to the U.S. market, 15% to the Canadian market and 55% to the offshore markets of Europe, Japan and Australia. The 1978 outlook for all of these markets is favourable at this time. The Company has been profitable in the first quarter of 1978, and subject to the markets remaining firm, expects the on-going plans of upgrading all production facilities to contribute to an even greater level of achievement.

Respectfully submitted on behalf of the Board

Peter J. Gregory,  
Chairman.

March, 1978.



# PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

Suite 2100, One Bentall Centre  
505 Burrard Street  
Vancouver, British Columbia  
V7X 1M1

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Gregory Industries Limited as at December 31, 1977 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Vancouver, Canada  
February 28, 1978

Chartered Accountants

## GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

## Consolidated Balance Sheet

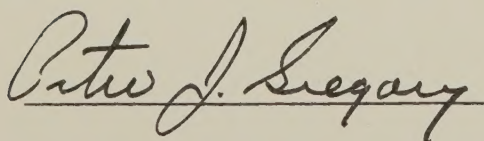
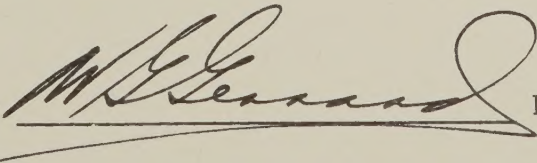
December 31, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 13,536	22,315
Accounts receivable	1,674,674	1,235,029
Inventories (Note 2)	2,190,165	1,609,217
Prepaid expenses and deposits	<u>252,133</u>	<u>171,836</u>
Total current assets	4,130,508	3,038,397
Investments and other assets, at cost	40,395	34,317
Property, plant and equipment (Note 3)	<u>1,977,717</u>	<u>1,790,382</u>
	<u>\$ 6,148,620</u>	<u>4,863,096</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Bank indebtedness (Note 4)	\$ 1,324,419	968,367
Accounts payable and accruals	1,779,202	1,417,281
Income and logging taxes payable	96,712	15,738
Long-term debt due within one year	<u>156,776</u>	<u>192,211</u>
Total current liabilities	3,357,109	2,593,597
Long-term debt (Note 5)	558,373	682,489
Shareholders' equity:		
Share capital:		
Common shares of no par value. Authorized		
2,040,000 shares; issued 1,030,928 shares	400,214	400,214
Earnings reinvested in the business (Note 6)	<u>1,832,924</u>	<u>1,186,796</u>
Total shareholders' equity	2,233,138	1,587,010
Commitments (Note 7).	<u>                    </u>	<u>                    </u>
	<u>\$ 6,148,620</u>	<u>4,863,096</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

 Director
 Director



GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Consolidated Statement of Earnings and Earnings Reinvested in the Business

Year ended December 31, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Sales	\$ 15,117,954	11,502,606
Expenses and charges:		
Cost of lumber sold	12,559,575	10,002,819
Selling and administration	1,356,264	1,147,630
Depreciation and amortization	243,860	280,182
Interest on long-term debt	97,305	118,683
Other interest, net	110,186	97,929
Gain on disposal of property, plant and equipment	<u>(12,880)</u>	<u>(10,403)</u>
	<u>14,354,310</u>	<u>11,636,840</u>
Earnings (loss) before income taxes and extraordinary item	763,644	(134,234)
Income taxes:		
Current	117,516	15,738
Deferred	<u>322,997</u>	<u>83,882</u>
	<u>440,513</u>	<u>99,620</u>
Earnings (loss) before extraordinary item	323,131	(233,854)
Deferred income tax reduction on application of prior years' losses	<u>322,997</u>	<u>83,882</u>
Net earnings (loss) for the year (Note 8)	646,128	(149,972)
Earnings reinvested in the business at beginning of year	<u>1,186,796</u>	<u>1,336,768</u>
Earnings reinvested in the business at end of year (Note 6)	\$ <u><u>1,832,924</u></u>	<u><u>1,186,796</u></u>

See accompanying notes to consolidated financial statements.

GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1977

(With comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Funds provided:		
From current operations:		
Earnings (loss) before extraordinary item	\$ 323,131	(233,854)
Add items not involving funds	<u>553,977</u>	<u>353,661</u>
Funds provided by current operations	877,108	119,807
Long-term debt financing	80,941	3,278
Proceeds from disposal of property, plant and equipment	81,554	46,791
Increase in investments and other assets	<u>6,078</u>	<u>8,501</u>
Total funds provided	<u>1,045,681</u>	<u>178,377</u>
Funds applied:		
Purchase of property, plant and equipment	512,025	182,783
Reduction of long-term debt	<u>205,057</u>	<u>210,362</u>
Total funds applied	<u>717,082</u>	<u>393,145</u>
Increase (decrease) in working capital	328,599	(214,768)
Working capital at beginning of year	<u>444,800</u>	<u>659,568</u>
Working capital at end of year	\$ <u><u>773,399</u></u>	<u><u>444,800</u></u>

See accompanying notes to consolidated financial statements.



GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1977

1. Significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and its operating subsidiary, Gregory Manufacturing Limited and its non-operating subsidiary; Anacortes Lumber, Inc.

Gregory Manufacturing Limited was incorporated on December 30, 1977, on the amalgamation of the three subsidiary companies, Acorn Forest Products Ltd., Gregory Paneling Limited and Field Sawmills, Ltd. Accordingly, these financial statements include the results of operations of these subsidiaries for the period January 1, to December 30, 1977.

All material inter-company transactions have been eliminated.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

Cost is determined on the first-in, first-out (FIFO) basis.

Depreciation:

Depreciation on property, plant and equipment has been recorded on the straight-line method over their estimated useful lives using the following rates:

Buildings, yards and dock	5%
Mill and office equipment	10%
Automotive equipment and boom boats	20%

Additions and betterments are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Income taxes:

The company follows the tax allocation basis of accounting for income taxes. Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income taxes. At December 31, 1977 the timing differences of \$805,000 were wholly covered by available losses and no reserve for deferred taxes was required.

2. Inventories:

Inventories are classified as follows:

	<u>1977</u>	<u>1976</u>
Logs	\$ 872,080	364,078
Lumber	1,189,174	1,209,299
Chips and sawdust	<u>128,911</u>	<u>35,840</u>
	\$ <u>2,190,165</u>	<u>1,609,217</u>



## GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

December 31, 1977

## 3. Property, plant and equipment:

	<u>1977</u>	<u>1976</u>
At cost less depreciation and amortization:		
Buildings (including buildings on leased land)	\$ 685,980	520,067
Equipment	1,979,154	1,776,799
Leasehold improvements	<u>44,122</u>	<u>44,122</u>
	2,709,256	2,340,988
Less accumulated depreciation and amortization	<u>1,116,918</u>	<u>953,385</u>
	1,592,338	1,387,603
Land	<u>220,379</u>	<u>220,379</u>
	1,812,717	1,607,982
At estimated net realizable value:		
Buildings and equipment	<u>165,000</u>	<u>182,400</u>
Total property, plant and equipment	\$ <u>1,977,717</u>	<u>1,790,382</u>

## 4. Bank indebtedness:

The bank indebtedness is secured by an assignment of accounts receivable and a charge on inventories, together with a demand debenture giving a second fixed charge on all property, plant and equipment and a floating charge on all other assets.

## 5. Long-term debt:

	<u>1977</u>	<u>1976</u>
Loan agreements at interest rates varying from 10.1% to 14½%, repayable in monthly instalments and maturing at various dates to 1984; secured by debentures giving a fixed charge on specified property, plant and equipment and a floating charge on other assets	\$ 687,451	741,550
Agreement payable in quarterly instalments of \$11,750 plus interest at 9½%	-	94,000
Other indebtedness and conditional sales contracts, repayable in monthly instalments, secured by charges on certain equipment	<u>27,698</u>	<u>39,150</u>
	715,149	874,700
Less amounts due within one year	<u>156,776</u>	<u>192,211</u>
	\$ <u>558,373</u>	<u>682,489</u>

GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

December 31, 1977

5. Long-term debt, continued:

Maturities of long-term debt are as follows:

1979	\$ 156,000
1980	137,000
1981	122,000
1982	92,000

6. Restrictions on cash dividends:

Under the terms of the bank debenture (Note 4) and certain loan agreements (Note 5), the company is restricted from payment of dividends, unless permission of the lenders is obtained.

The company is subject to the Anti-Inflation Act and Regulations, effective as of October 14, 1975, so far as the legislation relates to dividend payments.

7. Commitments:

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately:

1978	\$ 134,000
1979	113,000
1980	77,000
1981	36,000
1982	23,000

8. Earnings per share:

	<u>1977</u>	<u>1976</u>
Earnings (loss) before extraordinary item	\$ 0.31	(0.23)
Extraordinary item	<u>0.31</u>	<u>0.08</u>
Earnings (loss) for year	\$ <u>0.62</u>	<u>(0.15)</u>

9. Income taxes:

At December 31, 1977, the company and subsidiaries had tax losses of approximately \$1,049,000 available for the reduction of income taxes in the future. These losses will expire in the following years:

1978	\$ 35,000
1979	166,000
1980	309,000
1981	262,000
1982	277,000

10. Statutory information:

The remuneration of directors and senior officers, as defined by the British Columbia Companies Act, amounted to \$187,789 (1976 - \$170,014).





